Two factors drove the 3-4% drop of the three major U.S. equity indices. One, fears over rising interest rates. Two, a big selloff of tech shares.[1,2]

Closing market bid yields for the 10-year and 2-year note were barely changed from Tuesday at 3.22% and 2.88%, but those yields were respectively at levels unseen since 2011 and 2008. The perception that money is becoming more expensive to borrow affects the outlook for the housing market, business development, and consumer spending and confidence. Institutional and individual investors are wondering if the Federal Reserve will have to raise interest rates faster to cool off an economy at risk of overheating.[1,2,3]

The S&P 500's tech sector slumped 4.8% Wednesday, with some of the biggest names losing even more than that. The sector suffered its worst trading session in seven years, and since some of those names carry a lot of weight in the Nasdaq Composite and Dow Jones Industrial Average, those losses were deeply felt there. With just a third of October over, the Nasdaq is down 7.5%, month-to-date. Overseas stocks also retreated, as European investors were concerned about Italy's ballooning budget.[3]

At current levels, the DOW is 5.7% below its intraday record and it remains up 2.8% for 2018. The S&P is up 3.4% year to date, and is 6% under its record. The Nasdaq has gained 7.1% in 2018, but it is 9.1% under record levels.

Will earnings season change the mood on Wall Street? On one hand, analysts project Q3 earnings for the S&P 500 to be almost 20% better than a year ago. On the other hand, investors may focus on the outlook instead of the results. If corporations widely cut back their profit expectations for Q4 and Q1, which may breed significant pessimism. The weeks ahead could pose a challenge to the bull market.[4]

What's driving the market?

Investors have pinned the selloff on a variety of factors, including a sudden rise in long-dated interest rates since late September. A bond-market selloff saw the yield on the 10-year U.S. Treasury top 3.26% early Tuesday for the first time since April 2011.

Higher yields raise borrowing costs for corporations. Higher yields can also offer competition to equities, luring investors away from stocks. Market turmoil, however, appeared to spark haven demand for U.S. paper, with the yield on the 10-year note down more than 6 basis points Thursday to 3.158%.

President Donald Trump stepped up his criticism of the Fed late Wednesday, blaming the central bank's rate-hiking efforts for the stock-market weakness. Some analysts argue the Fed's expected rate path is overly aggressive, while others contend strong underlying economic fundamentals justify the central bank's outlook.

Continuing trade tensions with China and concerns about global growth have also been cited as factors behind the equity market's downturn.

In the latest economic data, jobless claims rose by 7,000 in the latest week, although they remain near multidecade lows. Separately, the consumer-price index rose 0.1% in September. Core CPI, which excludes food and energy, rose by the same amount.

What are analysts saying:

The market losses are "a reaction from investors finally realizing we are in a higher interest rate environment, and given the elevated level of stocks, market participants were likely looking for a reason to sell," said Charlie Ripley, senior investment strategist for Allianz Investment Management. "Higher interest rates typically bring on tighter financial conditions which could dampen growth going forward and equity markets are reacting to that." He added, "we are witnessing the repercussions in the markets as the Fed takes the punch bowl away from the party."

Your portfolio is primarily in the S&P 500 Dividend yielding stocks or equity mutual funds. With very little, if any, invested in Tech stocks. This investment approach provides lower volatility and consistent growth.

Additionally, our firm's primary focus is to provide you a Retirement Income Plan, identifying your retirement income as either having a surplus or a shortfall. The investment selections are coordinated and based on your plan. They are monitored quarterly and replaced based on your Investment Policy Statement (IPS).

This is not market timing or chasing the market, but focused on your current and/or future income needs for retirement.

Do you have questions about these developments and about where the markets may be headed? Please call or email me today to discuss any concerns and/or questions you may have.

1 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield [10/10/18]
2 - thestreet.com/markets/stocks-tumble-as-investors-focus-on-bond-market-moves-14739845 [10/10/18]
3 - cnbc.com/2018/10/10/us-markets-bond-yields-and-data-in-focus.html [10/10/18]
4 - cnn.com/2018/10/09/investing/stocks-earnings/ [10/9/18]